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Portfolio Recovery Associates, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Our first question comes from David Scharf – JMP Securities.

David Scharf – JMP Securities

Steve, I wanted to start off with a familiar topic, obviously this is kind of five quarters in a row now of material allowance charges. I know you've discussed this in the past but can you back up again and sort of walk through the process of determining at what juncture you decide to write down those collection curves and how you come up with the magnitude? Because obviously we're looking at sequential quarters where unemployment is increasing, consumer confidence is dropping, there are a lot of moving pieces and I know in the past the topic has come up of whether or not the accounting rules actually permit you to really slash and burn those curves and take a lot of pain up front.

I'm just sort of curious what factors keep changing every sequential three month period that kind of leads to these incremental charges. And, more importantly, as you kind of look at the macro environment today, what gives you confidence that, I think you commented Q4 may in fact be a turning point where we start to see the magnitude lessen.

Steven D. Fredrickson

I'll look back through my notes, I'm not sure I remember saying that. But, let me answer your question, does accounting convention allow you to slash and burn, I don't know that it does. Let me talk about how we do it. Every aggregated deal for a quarter and again remember aggregate deals in several different ways but one would be if I brought in cost recovery deals, that would be by itself and that would have no yield on it. There'd be kind of the core buying paper that's aggregated in one deal, there be bankruptcy buying in another and then medical paper, if you bought some.

That's generally the four categories we'd put them in to. What we'll do is that we set the curves and we've talked about from time-to-time we do try and take a pretty hopefully pragmatic approach to how we book these deals from the start and we'll start watching these cash collections come in and generally in the first year, six months to a year we don't allow any accretion so if cash collections came in light we don't allow accretion we use either the cost recovery or cash method for those deals.

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